

Message Text

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TO SECSTATE WASHDC PRIORITY 4379

INFO AMEMBASSY ANKARA

AMEMBASSY NICOSIA

AMEMBASSY PARIS

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SUBJECT: UPDATE OF INVESTMENT CLIMATE STATEMENT

REF: A) 77 STATE 244738; B) 75 ATHENS 5959

1. REVISED INVESTMENT CLIMATE STATEMENT REQUESTED IN REF A
FOLLOWS:

A. GENERAL GOVERNMENT ATTITUDE: FOR THE PAST QUARTER CENTURY, GREECE HAS SOUGHT TO PROMOTE ECONOMIC DEVELOPMENT BY ENCOURAGING PRIVATE FOREIGN INVESTMENT, AND ITS INVESTMENT LAWS ARE GENERALLY FAVORABLE. CAPITAL IMPORTED INTO GREECE FOR PRODUCTIVE INVESTMENT UNDER BASIC FOREIGN INVESTMENT LAW 2687/53 ENJOYS INCENTIVES AND PROTECTION GUARANTEED BY THE 1975 CONSTITUTION. THE CARAMANLIS GOVERNMENT, REELECTED WITH A COMFORTABLE PARLIAMENTARY MAJORITY IN NOVEMBER 1977, IS FRIENDLY TO THE FREE ENTERPRISE SYSTEM AND PRIVATE INVESTMENT. FOREIGN INVESTMENT IS OFFICIALLY WELCOMED IN GREECE PROVIDED IT CONTRIBUTES TO GREECE'S ECONOMIC DEVELOPMENT THROU
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EXPORT EXPANSION, IMPORT SUBSTITUTION, JOB CREATION, OR AS THE VEHICLE OF MODERN TECHNOLOGY AND KNOW-HOW.

DESPITE THE FAVORABLE INVESTMENT LEGISLATION AND THE GOVERNMENT'S AVOWED INTEREST IN ATTRACTING FOREIGN CAPITAL, CERTAIN DOMESTIC AND INTERNATIONAL CONDITIONS CURRENTLY DETRACT FROM AN OPTIMAL INVESTMENT CLIMATE. DOMESTICALLY, UNCERTAINTY AS TO THE STRUCTURE

OF FUTURE FINANCIAL INCENTIVES, BECAUSE OF A SUCCESSION OF PAST CHANGES
IN TAX REGULATIONS AND CURRENT PREPARATIONS TO ADAPT INVESTMENT INCENTIVES TO THE EC SYSTEM, MAKES ENTREPRENEURS RELUCTANT TO LAUNCH LONG-TERM PRODUCTION SCHEMES. INADEQUATE COORDINATION AMONG BUREAUCRATIC BODIES RESPONSIBLE FOR APPROVING AND IMPLEMENTING INVESTMENT PROJECTS IS ALSO A FREQUENTLY CITED DETERRENT. ON THE INTERNATIONAL SIDE, FOREIGN INVESTMENT FROM GREECE'S TRADITIONAL WESTERN SOURCES HAS RECEDED OF LATE BECAUSE OF THE SLOWDOWN IN GROWTH RATES SINCE 1973. AS A RESULT OF ALL THESE FACTORS, MANUFACTURING INVESTMENT IN GREECE HAS NOT ONLY STAGNATED BUT ACTUALLY DECLINED OVER THE PAST THREE YEARS, AND PRIME MINISTER CARAMANLIS NOW CONSIDERS A REVERSAL OF THIS TREND TO BE TOP PRIORITY.

B. ECONOMIC FACTORS: GREECE OFFERS ITS FOREIGN INVESTORS CERTAIN NATURAL ADVANTAGES: ITS STRATEGIC LOCATION AT THE CROSSROADS OF EUROPE AND THE MIDDLE EAST; A POTENTIAL FOR MINERAL AND PETROLEUM DISCOVERY AND EXPLOITATION; AND RELATIVELY LOW-COST LABOR. SIGNIFICANT FOR POTENTIAL INVESTORS ARE ALSO THE RAPID GROWTH OF GREECE'S TRADE RELATIONS WITH ARAB COUNTRIES; ATHENS'S ASCENDENCY AS A REGIONAL CENTER FOR U.S. FIRMS; AND GREECE'S IMPENDING ACCESSION TO THE EUROPEAN COMMUNITIES (EC). GREECE'S ECONOMIC DEVELOPMENT SINCE THE END OF WORLD WAR II HAS UNCLASSIFIED

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BEEN IMPRESSIVE. PER CAPITA INCOME AT CURRENT PRICES ROSE FROM \$230 IN 1953 TO 2,900 IN 1977. FORMERLY LARGELY RURAL, THE ECONOMY NOW HAS AN INDUSTRIAL SECTOR THAT CONTRIBUTES AROUND 25 PERCENT OF GDP. AS MIGHT BE EXPECTED, PARTS OF THE ECONOMY'S INFRASTRUCTURE HAVE NOT KEPT PACE WITH THIS RAPID GROWTH. TELECOMMUNICATIONS, AIRPORT AND PORT FACILITIES ARE SATISFACTORY, BUT THE ROAD AND RAIL NETWORK IS NOT YET FULLY DEVELOPED. BOTH POPULATION AND INDUSTRY ARE HEAVILY CONCENTRATED IN THREE URBAN AREAS--ATHENS, THESSALONIKI, AND PATRAS-- AT THE EXPENSE OF DEVELOPMENT IN THE REST OF THE COUNTRY. GREECE'S FINANCIAL SECTOR, PARTICULARLY THE CAPITAL MARKET, IS ALSO RELATIVELY UNDEVELOPED. SINCE THE 1974 RECESSION, ECONOMIC GROWTH AND DEVELOPMENT IN GREECE HAVE BEEN QUITE GOOD. DESPITE THE CHRONIC TRADE DEFICIT, AUTONOMOUS CAPITAL INFLOWS HAVE SIGNIFICANTLY REDUCED EXTERNAL BORROWING REQUIREMENTS. FOREIGN EXCHANGE RESERVES ARE NOW MORE THAN \$1 BILLION. THE AVERAGE RATE OF INFLATION, ALTHOUGH STILL CONSIDERED A PROBLEM AT AROUND 12 PERCENT, HAS BEEN SUBSTANTIALLY REDUCED SINCE 1974. PERHAPS THE WEAKEST SPOT IN THE ECONOMIC PICTURE IS THE STAGNATION OF PRODUCTIVE INVESTMENT. IN GENERAL, THE OUTLOOK FOR GREECE'S ECONOMY IN THE NEXT FEW YEARS IS ENCOURAGING: A CONTINUATION OF THE MODERATE GROWTH RATE (AROUND 5 PERCENT),

FURTHER STRENGTHENING IN EXTERNAL TRANSACTIONS, AND A SLOWLY
DECLINING INFLATION RATE.

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C. FINANCIAL INCENTIVES AND DISINCENTIVES: GREECE'S BASIC
INVESTMENT LAW PL 2687/53 PROVIDES FOR THE REPATRIATION OF UP
TO 10 PERCENT OF EQUITY AND LOAN CAPITAL PER YEAR AND THE ANNUAL
REMITTANCE IN FOREIGN EXCHANGE OF INTEREST UP TO 10 PERCENT OF LOAN
CAPITAL AND DIVIDENDS EQUAL TO 12 PERCENT OF EQUITY. THIS
LEGISLATION CONCERNS
THE EMPLOYMENT OF FOREIGN NATIONALS IN
EXECUTIVE, TECHNICAL
, AND ADMINISTRATIVE POSITIONS, PROVIDES EQUAL
TREATMENT TO FOREIGN CAPITAL, PROTECTS AGAINST COMPULSORY EXPROPRIATION
,
AND ALLOWS FOR ARBITRATION OF DISPUTES BETWEEN THE FOREIGN
INVESTOR AND THE GREEK GOVERNMENT.

D. DEVELOPMENT POLICY: GREEK ECONOMIC POLICY-MAKERS ARE
AWARE THAT FOREIGN CAPITAL, TECHNOLOGY, AND MANAGEMENT EXPERTISE
ARE ESSENTIAL TO IMPROVE PRODUCTIVITY, REALIZE ECONOMIES OF SCALE,
AND THUS PAVE THE WAY FOR GREECE'S EC ACCESSION. FOREIGN
INVESTMENT APPLICATIONS ARE FILED WITH THE MINISTRY OF COORDINATION,
AND EACH CASE IS CAREFULLY SCREENED. APPLICATIONS ARE NORMALLY
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PROCESSED WITHIN ONE TO TWO MONTHS, ALTHOUGH THIS TIME LIMIT MAY BE EXCEEDED WHEN INVESTMENTS HAVE A POTENTIAL IMPACT REQUIRING SPECIAL CONSIDERATION BY SEVERAL GOG AGENCIES. BASIC CRITERIA TAKEN INTO ACCOUNT INCLUDE EXPORT ORIENTATION, IMPORT SUBSTITUTION, DEVELOPMENT OF INDIGENOUS RESOURCES, TRANSFER OF TECHNOLOGY AND MANAGEMENT EXPERTISE, JOB CREATION AND REGIONAL DEVELOPMENT. GREECE IS ALSO BECOMING INCREASINGLY SENSITIVE TO THE IMPACT OF INDUSTRIALIZATION ON THE ENVIRONMENT AND FOREIGN INVESTORS ARE EXPECTED TO COMPLY WITH LOCAL AND INTERNATIONAL SPECIFICATIONS FOR POLLUTION CONTROL AND ENVIRONMENTAL PROTECTION.

FOREIGN-CONTROLLED ENTERPRISES GENERALLY ENJOY THE SAME INCENTIVES AS DOMESTIC BUSINESS. EXPORT CREATING AND IMPORT SUBSTITUTING INDUSTRIES ARE CURRENTLY ENCOURAGED THROUGH SPECIAL TAX AND TARIFF AC

C
OMMODATIONS. A COMPREHENSIVE PROGRAM OF TAX AND CREDIT INCENTIVES IS DESIGNATED TO REDUCE CONGESTION IN THE ATHENS-PIRAEUS AREA AND TO ENCOURAGE INVESTMENT IN THE LESS-DEVELOPED REGIONS, PARTICULARLY THE EASTERN FRONTIER AREA AND THE EASTERN AEGEAN ISLANDS (75 ATHENS 7865 AND 76 ATHENS A-147). PATE T AND ROYALTY LAWS PROTECT TECHNOLOGY TRANSFER. GOVERNMENT PROCUREMENT FAVO

RS
LOCAL PURCHASES. ANTITRUST LEGISLATION DESIGNED TO AVERT MONOPOLISTIC AND OLIGOPOLISTIC CONDITIONS WHICH MIGHT HINDER NORMAL MARKET OPERATIONS AND HARM CONSUMER AS WELL AS NATIONAL ECONOMIC INTERESTS WAS ENACTED IN 1977. IT IS IDENTICAL TO ARTICLES 85 AND 86 OF THE TRA

TY
OF ROME, AND MOVES GREECE A STEP CLOSER TO HARMONIZATION WITH EC PRACTICES (77 ATHENS A-154).

LACK OF LOCAL EXPERTISE AND INFRASTRUCTURE REQUIRED TO CONDUCT OIL EXPLORATION AND DEVELOPMENT, PARTICULARLY OFFSHORE, PROMPTED THE GOVERNMENT TO INTRODUCE PL 468/76, WHICH IS DESIGNED TO ATTRACT QUALIFIED FOREIGN FIRMS BY ESTABLISHING A LEGAL FRAMEWORK, DEFINING PROCEDURES, AND FORMULATING BASIC RULES GOVERNING OIL EXPLORATION AND UNCLASSIFIED

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DEVELOPMENT CONTRACTS (77 ATHENS A-10).

E. LABOR FACTORS: OUT OF A TOTAL POPULATION OF SLIGHTLY OVER NINE MILLION, GREECE HAS A LARGELY SEMI-SKILLED LABOR FORCE OF ABOUT 3.2 HILLION, OF WHICH 1.2 MILLION ARE WAGE AND SALARY EARNERS. STATISTICS SHOW A RELATIVELY LOW UNEMPLOYMENT RATE --2 TO 3 PERCENT -

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BUT LABOR AVAILABILITY IS NOT A PROBLEM DUE TO CONSIDERABLE UNDEREMPLOYMENT IN RURAL AREAS. ALSO, IN THE LAST FEW YEARS THERE HAS BEEN NET IMMIGRATION AS WORKERS GRADUALLY RETURN FROM WEST GERMANY.

LABOR-MANAGEMENT RELATIONS ARE GENERALLY GOOD. WAGES AND

LABOR DISPUTES ARE SETTLED THROUGH COLLECTIVE BARGAINING OR COMPULSORY ARBITRATION. STRIKES ARE RELATIVELY INFREQUENT, ALTHOUGH THEY HAVE BEEN INCREASING OF LATE. SEVERANCE PAY IS PROVIDED UPON DISMISSAL.

F. OWNERSHIP POLICY AND INVESTMENT DISPUTES: FOREIGN INVESTMENT IS NOT FAVORED IN SECTORS UNDER GOVERNMENT ADMINISTRATION OR CONTROL, SUCH AS RAILWAY AND AIR TRANSPORT, TELECOMMUNICATIONS, RADIO AND TELEVISION, ENERGY, AND DEVELOPMENT OF MINERAL RESOURCES. THE MINERAL SECTOR IS OPEN TO FOREIGN INTERESTS, BUT UNDER INCREASING GOVERNMENT SUPERVISION AND, IN THE CASE OF LARGE PROJECTS, MAJORITY GREEK PARTICIPATION (76 ATHENS 1601, 76 ATHENS 10590, AND 76 ATHENS 3897).

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FOREIGN INVESTMENTS IN GREECE ARE PROTECTED AGAINST COMPULSORY ASSET EXPROPRIATION BY ARTICLE 11 OF PL 2687. THIS LAW ALSO PROVIDES FOR ARBITRATION IN THE CASE OF DISPUTES BETWEEN FOREIGN INVESTORS AND THE GOVERNMENT. THE ONLY INVESTMENT DISPUTES TO ARISE SINCE ENACTMENT OF PL 2687 INVOLVED THE REVISION OF CERTAIN CONTRACTS NEGOTIATED DURING THE JUNTA PERIOD, WHICH CREATED A FEELING

OF UNCERTAINTY AMONG BOTH FOREIGN AND LOCAL INVESTORS. MOST OF THESE HAVE NOW BEEN AMICABLY RESOLVED.

G. STATUS OF OPIC PROGRAMS: FULL OPIC INSURANCE COVERAGE IS AVAILABLE FOR U.S. INVESTMENT IN GREECE. HOWEVER, BECAUSE OF GREECE'S RELATIVELY HIGH PER CAPITA INCOME, OPIC PROGRAMS ARE

NOW SOMEWHAT RESTRICTED IN ACCORDANCE WITH NEW POLICIES ANNOUNCED
ON SEPTEMBER 26, 1977. INVESTMENT PROJECTS WILL BE INSURED TR
FINA CED IF TTEY ARE SPONSORED BY U.S. SMALL BUSINESSES OR
COOPERATIVES ARE FOR MINERALS EXPLOITATION OR DEVELOPMENT,

INVOLVE ENERGY DEVELOPMENT, OR OFFER "EXCEPTIONALLY SIGNIFICANT
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DEVELOPMENT BENEFITS," IN ADDITION TO SATISFYING OPIC'S OTHER POLICY
TESTS.

H. CHANGES IN INVESTMENT POLICIES: THE GREEK GOVERNMENT IS PRESENTLY
RESTRUCTURING ITS INVESTMENT INCENTIVES TO CONFORM TO EC PRACTICE BY
THE DATE OF ACCESSION. THE REVISED INCENTIVES WILL BE IN THE FORM OF
GRANTS FOR NEW INVESTMENT IN INDUSTRY, SMALL-AND MEDIUM-SIZE
MANUFACTURING, AND TOURISM. THE GRANTS WILL VARY ACCORDING TO
LOCATION TO ENCOURAGE DEVELOPMENT OUTSIDE THE TWO URBAN CENTERS
OF ATHENS AND THESSALONIKI. THE GOVERNMENT MAY ALSO EXTEND THE
VALIDITY OF EXISTING INCENTIVES IN REGIONS WHERE THEY ARE
DUE TO EXPIRE AS WELL AS REFORM LEGISLATION WHICH GIVES SPECIAL
TREATMENT TO MAJOR INVESTMENT PROJECTS (OVER \$4.3 MILLION) AND
MERGERS. TO ASSIST IN REVISION OF INCENTIVES, A COMMITTEE
COMPOSED OF GOVERNMENTS AND BUSINESS REPRESENTATIVES IS CURRENTLY
INVESTIGATING INSTITUTIONAL, ADMINISTRATIVE AND ORGANIZATIONAL
DETERRENTS TO INVESTMENT AND EXPORTS.

I. INVESTMENT STATISTICS (SEE ATHENS 77 A-104): IN THE ABSENCE OF
A BREAKDOWN OF OFFICIAL INVESTMENT STATISTICS, THE EMBASSY
DEVELOPS ITS OWN UNOFFICIAL ESTIMATES THROUGH A PERIODIC SURVEY.
OF THE \$642 MILLION IN TOTAL FOREIGN INVESTMENT BETWEEN 1953-1977
(CAPITAL AND MACHINERY IMPORTED UNDER PL 2687 ACCORDING TO BANK
OF GREECE STATISTICS), U.S.-CONTROLLED INVESTMENT IS ESTIMATED
AT \$367 MILLION, OR AROUND 57 PERCENT. IT IS BROKEN DOWN AS
FOLLOWS: MANUFACTURING - \$286 MILLION; OIL EXPLORATION -
\$46 MILLION; MINING AND SMELTING - \$18 MILLION, TOURISM - \$14
MILLION: OTHER - \$3 MILLION.

WITH RESPECT TO INVESTMENT FROM OTHER COUNTRIES, THERE ARE NO
STATISTICAL DATA AVAILABLE LOCALLY. HOWEVER, THE BULK WOULD
APPEAR TO BE FROM GERMANY, FRANCE, ITALY AND SWITZERLAND,
WITH SMALL AMOUNTS FROM THE U.K., AUSTRIA, JAPAN, AND THE
NETHERLANDS.

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